Title: Annual Audit and Inspection Letter 2004/05
Author: Audit Commission

Annual Audit and Inspection Letter 2004/05 - attached

Recommendation:

That Members note the report for information.
Annual Audit and Inspection Letter

Council of the Isles of Scilly

Audit 2004-2005
External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

**Status of our reports to the Council**

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

**Copies of this report**

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Introduction

1. The Council of the Isles of Scilly is unique in terms of its size, geographical location and the wide range of activities undertaken. Given that the island community is so heavily dependent on the services provided by the Council, good financial and performance management is as important for the Council of the Isles of Scilly as it is for other local authorities.

2. The Council is currently working alongside the Government Office for the South West (GOSW) and other agencies in order to develop a proportionate external inspection and regulation framework.

3. This Annual Audit and Inspection Letter summarises the findings from our audit for the 2004/05 financial year and provides an update on work within the 2005/06 audit plan that has already been completed and reported to the Council.

4. We have issued separate reports covering each of the issues raised and a list of these reports is included at Appendix 2 to this letter.
Key messages

Council performance

5 The Council of the Isles of Scilly has been assessed as a one-star Council under the updated Comprehensive Performance Assessment (CPA) framework. Although the Council has made some progress during the past year, we have assessed the Council as 'not improving adequately'.

6 A detailed review of the Council's use of resources showed that, overall, its performance was below the minimum expected requirements. The Council needs to improve its arrangements for financial planning and reporting in order to ensure that its financial position is sustainable.

7 The Council should also further strengthen its performance management arrangements to enable it to monitor the delivery of its objectives and to take corrective action as necessary. The Council will need to improve the accuracy and focus of its performance indicators in order to provide it with a strong basis on which to monitor its performance.

Financial position

8 In 2004/05, the Council underspent against its net operating expenditure budget by £322,000. The Council has a history of spending less than its budget and has under-spent against its net operating budget by approximately £1 million in the last three years.

9 The Council included this issue within its Statement on Internal Control and recognised it needed to develop a clear understanding of the reasons for its reported underspends and to ensure that these are considered when setting its budget for 2006/07 and subsequent years.

The accounts

10 The financial statements were approved by members before the statutory deadline of 31 July 2005 although they needed to be changed significantly in order for an unqualified audit opinion to be issued.

11 While the Council has made progress by meeting tighter deadlines for the production of its financial statements, it needs to ensure that they are prepared in accordance with the accounting requirements that apply to all Local Authorities.
Other accounts and governance issues

The Council identified a number of weaknesses within its Statement on Internal Control and these will need to be addressed over the forthcoming year, with regular updates being provided to members in order to enable them to assess the progress being made.
Performance

Under the previous Comprehensive Performance Assessment (CPA) regime the Council of the Isles of Scilly was assessed as being 'weak'. During the year the Council was judged to be 'not improving adequately' and it was re-assessed for CPA purposes as a one-star council.

CPA scorecard

13 The CPA scorecards and Direction of Travel summary statements for all Unitary and County Councils were published on 15 December 2005. The Council was assessed as 'not improving adequately' and as demonstrating One Star overall performance.

14 Table 1, below, sets out the Council's scores for each of the components that make up the overall CPA rating.

<table>
<thead>
<tr>
<th>Table 1 CPA scorecard</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Element</strong></td>
<td><strong>Assessment</strong></td>
</tr>
<tr>
<td>Direction of Travel judgement</td>
<td>Not improving adequately</td>
</tr>
<tr>
<td>Overall</td>
<td>1 star</td>
</tr>
<tr>
<td>Current performance</td>
<td></td>
</tr>
<tr>
<td>Use of resources</td>
<td>1 out of 4</td>
</tr>
<tr>
<td>Environment</td>
<td>1 out of 4</td>
</tr>
<tr>
<td>Children and young people</td>
<td>2 out of 4</td>
</tr>
<tr>
<td>Social care (adults)</td>
<td>2 out of 4</td>
</tr>
<tr>
<td>Housing</td>
<td>2 out of 4</td>
</tr>
<tr>
<td>Benefits</td>
<td>3 out of 4</td>
</tr>
<tr>
<td>Culture</td>
<td>3 out of 4</td>
</tr>
<tr>
<td>Corporate assessment / capacity to improve (not reassessed in 2005)</td>
<td>3 out of 4</td>
</tr>
</tbody>
</table>

(Note: 1 = lowest, 4 = highest)

15 The CPA judgements this year have been made using the revised methodology: *CPA - the harder test*. As the title implies, CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement, which measures how well councils are improving.

Council of the Isles of Scilly
Direction of Travel report

Since CPA was introduced in December 2002, council services across the country have improved significantly. However, expectations of public services do not stand still and the need to make arrangements to secure continuous improvement remains.

In late 2005, the Audit Commission undertook an assessment of the progress that had been made against councils' own priorities and produced Direction of Travel statements to provide public assurance that councils are complying with their duties to secure improvement. The Council of the Isles of Scilly was assessed as 'not improving adequately' and the Direction of Travel statement issued at that time is repeated below:

The Five Islands School is no longer under special measures, which is important for the community. Otherwise the quality of service that the Council delivers is mixed and the level of improvements achieved is variable. The Council is starting to prioritise key areas for improvement and develop meaningful action plans which are adequately resourced. Performance management and risk management are in their infancy in the Council and this potentially hinders the delivery of effective services. While it has been agreed that some national performance indicators are not relevant, the Council does not use a range of local indicators to help it manage effectively. The Council does communicate with its community and has developed a community strategy and a series of service plans. However, its objectives are not translated into meaningful action plans and there are few measures or targets to help assess the Council’s performance in achieving its objectives. The Council uses much external support to help it with the improvement process and this presents it with an opportunity to increase its capacity and help it move forward.

Fire CPA

In July 2005, the Audit Commission published the results of the first Comprehensive Performance Assessments for Fire Authorities. Fire CPA is an assessment, at the corporate level, of how well an authority is being run. It does not give an opinion on how well the fire service responds to emergency incidents. Overall, the Isles of Scilly Fire and Rescue Authority was assessed as being 'fair'. The results of this assessment are reported separately as it does not form a part of the overall Comprehensive Performance Assessment for the Council.

The Fire Authority for the Islands is the smallest in England and its unique environment is a constant factor in its work. The Fire Authority deals with this situation well, has a close relationship with the community and engages effectively with it. It is clear what the Fire Authority is trying to achieve and there are clear and effective governance arrangements in place and good working relationships between staff and members.
The assessment also found that the Fire Authority is doing well in other areas. There have been no deaths or injuries caused by fires and this has resulted in good performance indicator results. The service provides good value for money and works creatively to make best use of its limited resources.

The key issue for the Council to address is developing its workforce and implementing a competency-based assessment system to focus on staff training and development needs. The Council is not fully utilising its staff due to the lack of a human resources strategy. With more progress on human resource issues the Council could further improve its performance and minimise the effect of its limited financial resources.

**Best value performance plan and performance information**

The Council's best value performance plan (BVPP) was published in line with the statutory requirements although it did not set out clearly the actions proposed to deliver the Council's objectives. This issue impacted on the Direction of Travel assessment referred to above. The Council needs to be clear on what actions it will take to achieve its own objectives, how these will be resourced and the way in which the Council will be able to assess the progress being made.

We also found that a number of indicators were either incorrectly calculated or had no evidence to support them and these weaknesses were included in the statutory opinion we issued on the Council's best value performance plan. Some of the weaknesses identified were beyond the Council's control and it must therefore work with external service providers for areas such as education in order to ensure that the requirements are met in the future. Accurate performance indicators are vital for the Council to be able to monitor its performance.

While there is still some scope for improvement, we recognise that the Officers involved in the preparation of the BVPP are making good progress with improving the processes to produce accurate information and have responded positively to the recommendations we have made.

In order to improve the accuracy and usefulness of performance indicators, the Council should ensure that all Officers take responsibility for their own service areas by providing accurate information for reporting to members, the management team and for inclusion in the Council's BVPP. The Council should also look to improve its suite of local performance indicators to help it to monitor its performance. As noted below, local performance indicators are in place for environmental services but will need time for them to be of use to the Council.
Review of environment related services

27 In order to provide us with an understanding of the progress being made by the Council, we undertook a review of its environment-related services.

28 We concluded that the Council is providing a committed and responsive service that has achieved a good quality environment for residents and visitors alike.

29 The Council is developing a more strategic approach to service delivery and needs to ensure that this continues across all services. As mentioned earlier in this letter, the Council’s use of performance information has lagged behind other councils although it is now beginning to make progress. Some local performance indicators have been developed but it is too early to see their effect on driving improvement and there remains scope for further improvement.

30 The planning service is improving well and we identified other examples of good partnership working, for example on waste. While there is some strategic thinking, the Council should continue to develop formal strategies that inform the public and partners of its intentions. When coupled with an improved performance management system, the Council will be able to address the major and costly infrastructure issues it faces relating to highways, sewerage and waste disposal.

Working with other inspectorates and regulators

31 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council’s performance. The ones with which the Relationship Manager has a direct relationship include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- Department for Education and Skills (DfES);
- Government Office for the South West (GOSW); and
- Benefits Fraud Inspectorate (BFI).

32 However, we recognise that there are a number of other agencies and regulators involved with the Council and the Relationship Manager has been involved in endeavouring to ensure a coordinated and proportionate programme of reviews for the Council.

33 During the last year the Council has received the following assessments from other inspectorates that impacted on its overall CPA score:

- In December 2005 the Commission for Social Care Inspection (CSCI) and the Office for Standards in Education (OFSTED) reported their annual performance assessment of the Council of the Isles of Scilly’s education, children’s services and children’s social care services as follows.
The contribution of the local authority’s social care services in maintaining and improving outcomes for children and young people. | Serving some people well (2)
---|---
The contribution of local authority’s education services in maintaining and improving outcomes for children and young people. | Serving some people well (2)
The contribution of the local authority’s children’s services in maintaining and improving outcomes for children and young people. | Serving some people well (2)
The council’s overall capacity to improve its services for children and young people. | Inadequate capacity to improve (1)

(Note: 1 = lowest, 4 = highest)

- In October 2005, the Commission for Social Care Inspection (CSCI) reported its assessment of the Council of the Isles of Scilly’s adult social care services and concluded that the Council was serving some adults well, although it had poor capacity to improve services. There was no change to the assessment given to the Council in 2003/04.
- In October 2005, the Benefits Fraud Inspectorate (BFI) judged the Council’s housing benefits section to be providing a good service. This was not a full inspection and the assessment was based primarily on a self assessment undertaken by the Council itself. The areas assessed by the BFI and their judgements are set out in the table below:

<table>
<thead>
<tr>
<th>Area assessed</th>
<th>Final judgement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims administration – claims processing, quality and reducing error and overpayments</td>
<td>Excellent</td>
</tr>
<tr>
<td>Security – security of administration, counter-fraud activities and sanctions</td>
<td>Poor</td>
</tr>
<tr>
<td>User focus – take-up, customer service and appeals and complaints</td>
<td>Excellent</td>
</tr>
<tr>
<td>Resource management – strategic management, value for money and assurance</td>
<td>Good</td>
</tr>
</tbody>
</table>
Accounts and governance

We have issued an unqualified audit opinion on the Council's financial statements for 2004/05, although the accounts provided to us needed to be amended significantly in order to ensure that they met the Local Authority accounting regulations.

During the preparation of its Statement on Internal Control (SIC), the Council identified a number of significant issues which need to be addressed over the forthcoming year. The Council needs to provide regular updates to members in order to enable them to assess the progress being made.

Matters arising from the final accounts audit

The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources.

Preparation of the final accounts

In last year's Annual Audit and Inspection Letter we emphasised the need to prepare accounts in the right format and to support these with good quality working papers in order to enable the audit to be carried out efficiently. We also outlined the need to prepare accounts earlier and to streamline the process where possible in order to meet a further change to the accounts preparation deadline in 2005.

We were pleased to note that the earlier timetable for 2005 was achieved, although 2006 may still be challenging as the deadline is being brought forward by a month - to 30 June 2006 - and this will require early planning and a thoughtful scheduling of key meetings.

The accounts submitted for audit needed to be changed in order for an unqualified audit opinion to be issued. Although some of the changes were very technical in their nature, it is still important that the accounts approved by members have been prepared in line with Local Authority Accounting Requirements and, if necessary, the Council should seek external support in this area.

The most significant issues identified during our audit related to the accounting for fixed assets and Officers have agreed a number of recommendations to improve the process for the 2005/06 financial statements.

There is also scope to improve the working papers that support the Council's financial statements. Good quality working papers will help the Council with the preparation of its accounts in future years and will reduce the audit time and the level of disruption to the Council.
We are required by professional standards (Statement on Auditing Standards (SAS) 610) to report to those charged with governance, in this case the Council, certain matters before we give an opinion on the financial statements. The issues set out above were reported to Council on 18 October 2005 before the revised accounts were approved.

**Statement on Internal Control**

During 2005, the Council took steps to identify its internal controls and to establish arrangements to assess the effectiveness of those controls. Following that review, the Council noted those internal control issues which it deemed as significant within the Statement on Internal Control that was included within the Council's accounts.

A total of 20 significant internal control issues were identified by the Council, including:

- identifying reasons for the Council underspending against its budget;
- improving the preparation of its financial statements;
- improving the arrangements for dealing with grant funding; and
- completing the risk register.

In order for the Statement on Internal Control to be a useful catalyst for improvements within the overall control environment at the Council, it is important for the members and officers to monitor the action being taken to address the identified weaknesses throughout the year.

**Financial standing**

In 2004/05 the Council underspent against its net operating expenditure budget by £322,000. The Council has a history of spending less than its budget and has under-spent against its net operating budget by approximately £1 million in the last three years. The table below shows budget and actual spend since 2002/03 together with the corresponding council tax increase each year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual £,000s</th>
<th>Budget £,000s</th>
<th>Underspend £,000s</th>
<th>% increase in council tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002/03</td>
<td>3,368</td>
<td>3,588</td>
<td>220</td>
<td>10.0%</td>
</tr>
<tr>
<td>2003/04</td>
<td>3,355</td>
<td>3,837</td>
<td>482</td>
<td>26.9%</td>
</tr>
<tr>
<td>2004/05</td>
<td>3,725</td>
<td>4,057</td>
<td>322</td>
<td>7.5%</td>
</tr>
<tr>
<td><strong>Total for three years</strong></td>
<td><strong>1,034</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Council included this issue within its Statement on Internal Control and recognised it needed to develop a clear understanding of the reasons for its reported underspends and to ensure that these are considered when setting its budget for 2006/07 and subsequent years.

Where an overall underspend arises due to the receipt of grant financing after the budget was set, the Council needs to consider the most appropriate use of this additional funding.

In our last Annual Audit and Inspection Letter we again commented on the continuing level of the Council’s balances. This position has not changed and as at 31 March 2005, total useable reserves have increased from £3.2 million to £3.4 million, although earmarked reserves have decreased slightly from £2.5 million to £2.4 million. The Council’s general fund balance stands at £1.03 million, almost double the minimum level set by the Council in February 2005.

In order to ensure a prudent approach to its balances, it is important for the Council to:

- continue to review its reserve levels to ensure that reserves are held only for specific purposes and that these reserves are used as planned;
- take into consideration the risks set out on the Council’s risk register when determining reserve levels and planned contributions to or from reserves; and
- ensure that the Council Tax is set at a level that will allow the Council to deliver its planned objectives for the forthcoming year and make contributions to earmarked reserves, where necessary, in accordance with its medium-term financial strategy.

Pensions fund deficit

The Council’s pensions fund deficit at 31 March 2005 was £2.072 million, an increase of approximately £758,000 on the figure of £1.314 million reported at 31 March 2004. This increase is largely a result of an actuarial adjustment in the year.

In common with all employers, the pension scheme for the Council has become progressively more expensive over time because of declining investment returns and increasing life expectancies. In 2003/04 the Council contributed 16 per cent of salary costs to the scheme and this will grow to 21.8 per cent in 2007/08. The Cornwall County Council Pension Fund Treasurer points out in his 2004/05 annual report, that it is likely that scheme members will either have to increase their personal contributions to the scheme or work for longer before they can retire. Such changes are agreed nationally and are not therefore subject to local agreements.

The future

The Council’s budget for 2005/06 was set at £4.119 million, £301,000 (7.8 per cent) higher than the original budget for 2004/05, with a resultant increase in council tax of 4.5 per cent.
The Council has set indicative budgets for both 2006/07 and 2007/08 and these are broadly in line with the budget requirements for 2005/06.

The Council has recently produced a draft medium-term financial strategy which is essential to link its objectives, risk register, key strategies and future budgets. The development of this medium-term financial strategy is important for the Council to be able to demonstrate that it can afford to deliver its priorities and sustain its financial position.

**Systems of internal financial control**

There were no significant weaknesses identified in the year that were not included within the Council's own comprehensive Statement on Internal Control.

As reported in our 2003/04 Annual Audit and Inspection Letter, it is vital that the Council maintains an adequate level of internal audit coverage each year. In 2004/05, we concluded that coverage was adequate although we did note that the current arrangements expire on 31 March 2006. We understand that the Council is close to finalising an agreement to continue to receive internal audit coverage from Cornwall County Council, the current internal audit provider.

**Standards of financial conduct and the prevention and detection of fraud and corruption**

We have not identified any significant weaknesses in the arrangements to prevent and detect fraud and corruption and are pleased to note that the Council now has an anti-fraud and corruption policy in place, as recommended in last year's Annual Audit and Inspection Letter.

**Legality of transactions**

We have not identified any weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

We are pleased to note that the Council is gaining benefit from the agreement with Cornwall County Council's legal department to provide legal advice.

We are also pleased to note that the Council has addressed a concern raised in last year's Annual Letter and has contacted the Inland Revenue in respect of the benefits paid to employees living on the off-islands.
E-government health check

60 We reported in 2003/04 that there was a risk that the Council would not meet the 31 December 2005 deadline to implement the e-government initiatives and that unused grant funding may need to be repaid to the Government.

61 During the year we undertook a brief health check on the progress that the Council was making on the implementation of e-government. We concluded that progress was being made and the Council has since launched its new website and invested in other IT developments.

62 The website has been well received externally and the Council is receiving positive feedback on other developments. It now needs to ensure that this use of technology is delivering benefits to service users and efficiency gains to the Council itself.

Use of resources judgements

63 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of a council. It looks at how financial management is integrated with strategy and corporate management, how it supports council priorities and delivers value for money. It will be carried out annually and forms part of the CPA framework.

64 We have assessed the Council’s arrangements for use of resources in five areas.

<table>
<thead>
<tr>
<th>Use of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Element</strong></td>
</tr>
<tr>
<td>Financial reporting</td>
</tr>
<tr>
<td>Financial management</td>
</tr>
<tr>
<td>Financial standing</td>
</tr>
<tr>
<td>Internal control</td>
</tr>
<tr>
<td>Value for money</td>
</tr>
<tr>
<td>Overall</td>
</tr>
</tbody>
</table>

(Note: 1 = lowest, 4 = highest)

65 In reaching these judgements we have drawn on our other work and supplemented this with a review against specified Key Lines of Enquiry for each of the five elements covered by the assessment.

66 Overall, the Council has been rated at level 1 which means that it is performing below the minimum requirements.
The key issues for the Council are as follows.

Financial reporting

As mentioned previously the Council should ensure that its financial statements are prepared in line with Local Authority accounting requirements. Until the accounts received for audit are prepared in line with these requirements, the Council will not score greater than a 1 for financial reporting.

Financial management

The current budget setting process is comprehensive and the Treasurer is fully aware of the financial impact of decisions on the cost to the residents. At the time of our audit, the Council did not have a medium-term financial strategy. By finalising and using this document the Council will be able to set out its financial vision and detail how this will be achieved. This strategy can then be linked with the Council’s corporate objectives and risk register to help the Council monitor the delivery of its objectives and prioritise its spending.

While budget monitoring reports are very detailed, they do not currently provide a commentary on the figures reported or include a summary report showing the Council’s overall financial position. The Council should develop its budget monitoring and reporting arrangements to ensure that members and officers can be appropriately informed on the Council’s finances and take decisions based on relevant, Council-wide financial information.

Financial standing

As covered earlier in this report, the Council has a record of reporting a surplus at the end of each financial year and it needs to tackle the reasons for this.

Internal control

Over the past year, we have worked closely with the Council to help it develop its risk management arrangements. Now that the basic arrangements are in place, the Council should focus on risk management rather than risk identification, building up the risk register to enable action to be taken in respect of the risks it has identified and to monitor the progress being made.

Formal arrangements to prevent fraud and corruption have only recently been put in place and so it will be some time before the Council can be assessed as having a well established and proactive anti fraud culture.

Value for money

The main message is that the Council currently achieves value for money by making good use of inward investment in the form of grants, even though the arrangements in place to monitor the usage of these grants need further improvement. This is coupled with a cautious approach to budgeting and day to day cost management. Performance management arrangements are developing and should assist the Council in assessing value for money.
75 The Council should ensure that performance measures are in place to enable it to assess value for money and to inform key decisions on service delivery or service costs.

76 Our view of the Council’s arrangements to improve value for money is varied. We welcome the fact that the Council has recognised that its performance management arrangements need to be improved and that it is taking this forward. With an effective medium-term financial strategy linked to its key priorities, the Council will be able to assess how services and costs may change and how value for money can be achieved in the future. At the time of our audit there was no medium-term financial strategy in place and we were therefore unable to score the Council any higher than a 1.

77 Overall, the Council has been scored as a 2 for value for money because of the weighting applied in favour of what the Council currently does in respect of achieving value for money.
Other work

Grant claims

In accordance with the concept of strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced the audit input on a number of the Council's claims and have also worked with Officers to help ensure that the working papers provided with completed grant claims reduces the level of audit input and therefore the fees we charge for this work.
Looking forwards

Future audit and inspection work

We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year’s Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The statutory requirements governing our audit work, are contained in:

- the Audit Commission Act 1998; and
- the Code of Audit Practice (the Code).

The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which was approved by the Audit Committee in July 2005. The key changes include:

- the requirement to draw a positive conclusion regarding the Council’s arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.
Closing remarks

This letter has been discussed and agreed with Officers. A copy of the letter will be presented to members on 24 January 2005.

Finally, I would like to take this opportunity to express my appreciation for the Council’s assistance and co-operation during the course of this audit.

Availability of this letter

This letter will be published on the Audit Commission’s website at www.audit-commission.gov.uk and also on the Council’s website.

Peter Lawrence
District Auditor and Relationship Manager
January 2006
Appendix 1 – Background to this letter

The purpose of this letter

1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.

2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.

3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.
Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

**Accounts**
- Opinion.

**Financial aspects of corporate governance**
- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

**Performance management**
- Use of resources.
- Performance information.
- Best value performance plan.
## Appendix 2 – Audit outputs

**Table 3**

<table>
<thead>
<tr>
<th>Output</th>
<th>Date issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Plan</td>
<td>March 2004</td>
</tr>
<tr>
<td>Interim Audit Report</td>
<td>August 2005</td>
</tr>
<tr>
<td>Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)</td>
<td>October 2005</td>
</tr>
<tr>
<td>Final Accounts Memorandum</td>
<td>October 2005</td>
</tr>
<tr>
<td>Opinion on Financial Statements</td>
<td>October 2005</td>
</tr>
<tr>
<td>Best Value Performance Plan and Performance Indicators</td>
<td>September 2005</td>
</tr>
<tr>
<td>Use of Resources feedback</td>
<td>November 2005</td>
</tr>
<tr>
<td>Direction of Travel Assessment and CPA refresh</td>
<td>December 2005</td>
</tr>
<tr>
<td>Opinion on Best Value Performance Plan</td>
<td>December 2005</td>
</tr>
<tr>
<td>Annual Audit and Inspection Letter</td>
<td>January 2006</td>
</tr>
</tbody>
</table>
Appendix 3 – Audit fee

The proposed fee for the 2004/05 audit was £48,000. This was set out in the audit plan that was agreed at the start of the audit and there were no circumstances that required any variations to this fee during the year.